HR.com

Human Capital Management Practices

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Contents

Executive Summary

Have we entered an era of HR doldrums?

It's a reasonable question, given some of the responses to a new survey conducted by HR.com in partnership with ClearCompany.

Let's start with the bad news. Many HR professionals view today's worker productivity as either stagnant or in decline. Even worse, only a minority believe their leaders are effectively managing human capital.

On the other hand, they tend to be optimistic about issues such as forecasting and modeling the workforce. In other words, they believe in our collective ability to improve future workforce management results.

About the Survey

This report is based on the HR.com survey "Human Capital Management Analytics and Metrics," which was sponsored by ClearCompany. The survey was conducted in October and November 2016, and it received responses from 390 participants. The respondents represented a wide array of organizations, over half of them operating in more than one nation and most employing 100 or more employees.

This report not only contains the findings from the survey but also the implications of those findings. At the end of the report are important takeaways.

Here's a quick look at some of the key findings:

- **The Future:** Most respondents not only believe it's possible to accurately forecast workforce needs, they think it's possible to model the workforce in a way that optimizes costs, productivity and profits.
- **Leadership:** Only 37% of participants say that their leaders effectively manage human capital, and only about a third report that leadership actions are correlated to engagement, retention and performance.
- **Recruitment:** Referrals are the most widely cited source for finding top talent as well as employees who are a good cultural fit.
- **Talent:** Respondents are split as to whether the best talent comes from internal or external sources.
- **Productivity:** Just 44% say productivity is on the rise.

- **Time-to-Full-Productivity:** Although it takes months to make new hires fully productive, there are ways of speeding up the process.
- **Employee Turnover:** HR professionals can anticipate employee turnover via multiple measurable indicators.
- **Return on Investment:** There's no consensus about the notion that the ROI on human capital is higher than on other assets.

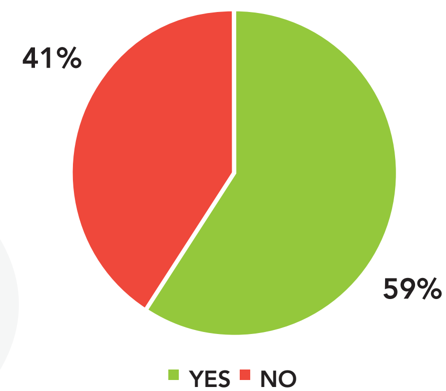
Section One: A Mix of Good and Bad HC News

HR.com's HCM Analytics and Metrics survey contained two major sections. This first section asked respondents for their views on the "workforce in general." In other words, the responses do not necessarily reflect the status within their own organizations but, rather, the business environment and the labor force as a whole. The idea was to determine if most HR and management professionals saw the human-capital world in a similar way. Generally speaking, we found that opinions vary on a number of key issues.

Finding One: There's Cautious Optimism About Workforce Forecasting

When respondents were asked if it's possible to accurately forecast workforce needs, a majority (59%) said yes. But there's certainly no consensus on the issue. A sizable minority (41%) indicated they were not confident organizations can accurately forecast future needs. This perspective suggests that business demands, skill-set requirements and other factors are difficult to anticipate. It assumes that employers, educational institutions and learners themselves can only estimate which skill sets will be most essential in the months and years to come.

Can we accurately forecast workforce needs in the future?



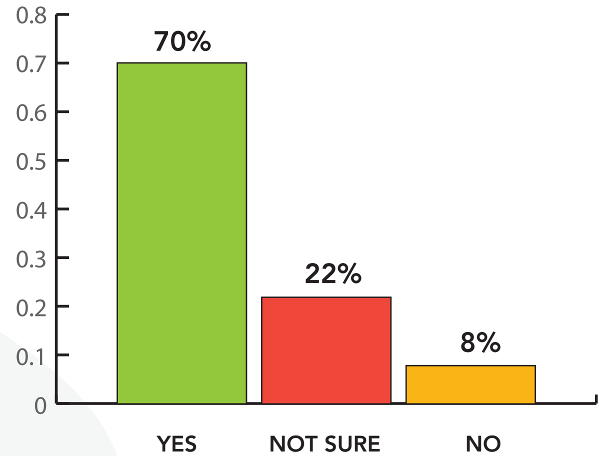
Implications: Although there's no consensus as to whether accurate workforce forecasting is possible, this data suggests many HR professionals see it as workable and would, therefore, be open to forecasting efforts, methods and tools.

Finding Two: Most Agree We Can Model the Workforce

Most respondents (70%) reported that it's possible to model workforces in such a way as to "optimize cost, profit and productivity." This implies that most organizations—and society as a whole—have a solid understanding of how to get the most out of today's human resources. It assumes the following:

- Workforce planners can efficiently hire and allocate skilled people and then place them in the right positions
- Managers are able to organize and engage their direct reports well
- Compensation specialists are good at paying employees enough to keep turnover at acceptable rates but not so much as to weaken profit margins

Can we model our workforce to optimize cost, profit and productivity?



Implications: As with workforce forecasting, a majority of respondents believe in the efficacy of workforce models This implies that HR professionals are willing to base certain decisions on workforce models and may even become willing to participate in the building of such models.

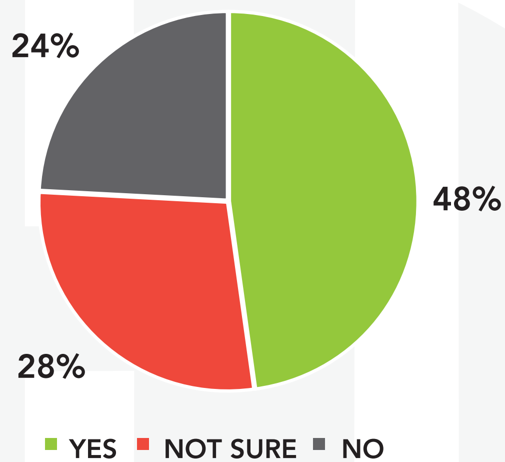
Only 8% of respondents said workforces cannot be modeled to achieve these aims, but nearly a quarter (22%) reported that they were not sure one way or the other.

Finding Three: There's Disagreement About the ROI on Human Capital

In the field of HR, there have long been debates over whether the return on investment (ROI) on human capital is higher or lower than on other types of assets (e.g., equipment, buildings, infrastructure, etc.). On one side of the debate are those who claim that investing in people via training and expenditures actually raises the value of human capital over time, whereas investments in physical assets, although necessary, must contend with the fact that those assets almost immediately begin to depreciate through wear and tear.

On the other side of the debate are those who contend that investments in human capital are fraught with hazard because organizations cannot own those assets. At best, they can only "rent" them. Therefore, an organization may pour thousands of dollars into increasing the skills sets and experience of an employee, only to have them leave the firm and perhaps take those skills to a competing organization.

Is the ROI on Human Capital Higher Than Other Investments



Implications: There is no consensus about the ROI on human capital. Therefore, HR professionals should be careful not to assume colleagues will accept ROI claims. If others are to be convinced, HR professionals must demonstrate compelling models and data.

Therefore, it's little wonder that the participants in this study are divided over the question of whether ROI on human capital is higher than other investments. While nearly half say they are, about a quarter say they are not and the other 28% are just not sure. (We should note that some HR professionals object to the very idea of categorizing human beings as capital).

ROI not only hinges on abstract issues such as accounting practices, but also on a range of company-specific factors such as turnover rates, training expenses, skill shortages and productivity rates.

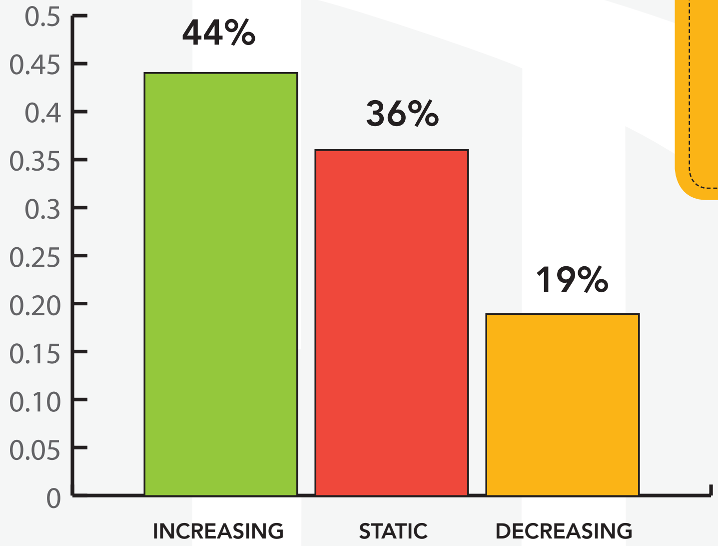
Another complication, according to the survey results, is that there's no consensus about the portion of today's workforce that is customer-facing or revenue-generating. About half of the respondents said a majority of the workforce is customer-facing or revenue-generating, and another 27% said the proportion is about half and half. Nonetheless, over three quarters of respondents believe at least half of the workforce directly generates revenue in some way and/or interacts with customers on a regular basis. If managed well, the potential ROI on these employees could be very high indeed.

Finding Four: There's Pessimism About Productivity

Respondents were asked about workforce productivity. Only 44% said the workforce productivity is increasing, whereas over a third said it was static and almost one in five that it was actually decreasing.

Is productivity literally decreasing? Of course, it may be declining in any given annual quarter in any nation, but productivity tends to grow over time in most countries. The problem is that productivity growth has been fairly dismal in the United States, Canada, and various other countries in recent years. Therefore, it's not surprising to find that many respondents are pessimistic on this score.

Is workforce productivity increasing, decreasing or static?



Implications: The pessimism about productivity suggests a larger crisis of confidence: that management tactics, tools and technologies are not doing a good enough job of making employees more productive. On the other hand, it suggests HR professionals and managers may be willing to invest in machine learning, augmented reality, robotics and other emerging technologies that could significantly affect productivity levels.

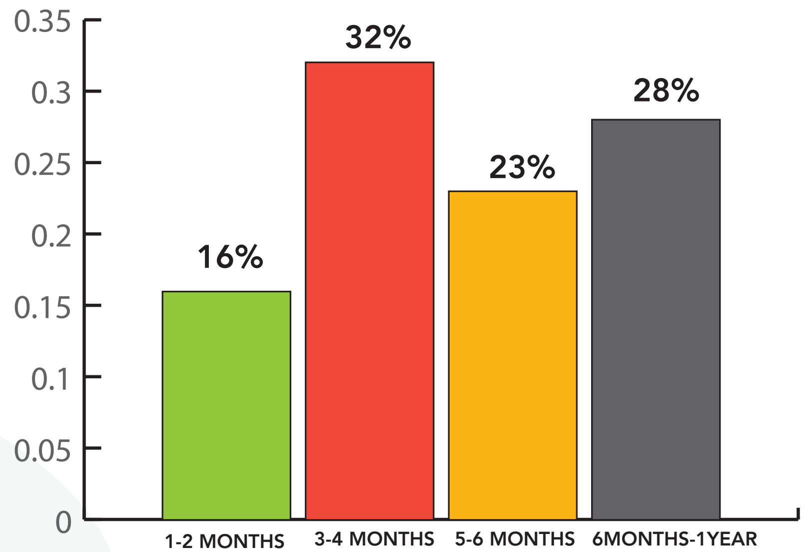
Finding Five: It Takes Months for Employees to Reach Full Productivity, But the Process Can Be Speeded Up

Over half of the respondents stated that it takes at least five months for the average new hire to reach full productivity, with 32% saying it takes three to four months and 29% saying it takes anywhere from six months to a year.

This data suggests that, in today's economy, relatively few HR and management professionals believe it is easy to get new employees up-to-speed quickly. It takes time and experience, which means that losing fully productive employees to turnover can cause significant drops in overall performance levels.

When necessary, however, it's possible to bring employees up-to-speed a little more quickly. When it comes to employees in critical roles, over half of respondents (55%) believe the average time-to-full productivity is anywhere from 1 to 4 months. By comparison, just 48% said the time to-full productivity for the average new hire was between 1 and 4 months.

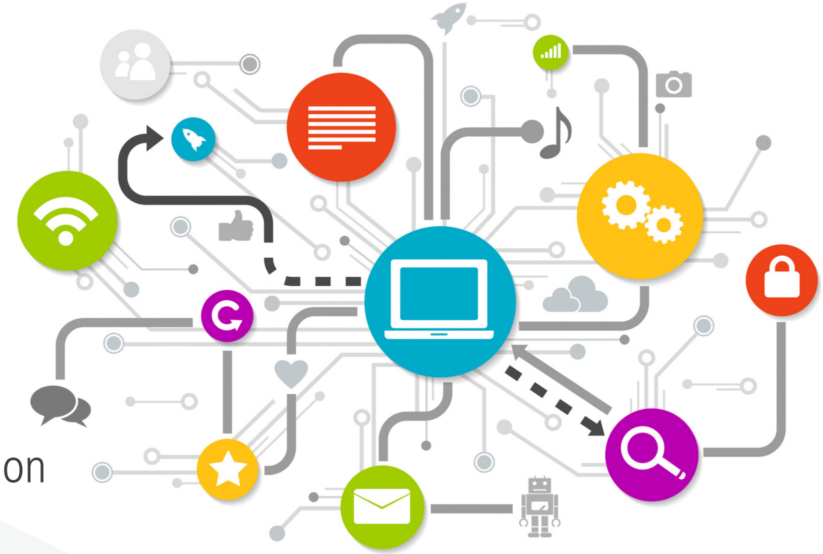
What is the average time-to-full-productivity for new hires?



Implications: There is no magic bullet for ramping up productivity among new hires, but there are tactics that can help quicken the pace. This implies an especially important role for training and development experts, onboarding programs, mentors and coaches when it comes to critical roles.

Finding Six: There Are Various Predictive Indicators of Turnover

Respondents pointed to a wide variety of issues that can be predictive of turnover. Below are among the top answers to this question:



1. Increased absenteeism
2. Lower engagement levels
3. Lower job satisfaction
4. Lower productivity and performance levels
5. Attitude and morale problems
6. Issues related to pay/remuneration/salary/compensation
7. Low quality of management and supervision
8. Approaching retirement age
9. Inadequate training opportunities
10. Lack of growth opportunities

Implications: There is a wide variety of possible predictors of turnover. The question is whether these predictors can be integrated into analytics applications capable of empirically demonstrating their predictive value. Another key question, of course, is whether employers can use such data to reduce the voluntary turnover rates among productive employees.

Finding Seven: Most Can Cite Links Among Engagement, Customer Satisfaction and Profits

Survey participants were asked, "What is the link between employee engagement, customer satisfaction, revenue and profits?" They responded in a variety of ways.

Many simply confirmed that there's a connection among these five factors, with responses such as:

- All are interconnected
- Cause and effect relationship
- Direct correlation
- Direct link
- Strong

Some tried to define the relationships among these factors, with responses such as:

- All must be linked tightly. Employees must be engaged to produce a quality product. Quality products yield returning customers who in turn allow us to generate revenue and make a profit. It starts with the employee.
- An un-engaged nurse means a dissatisfied customer, which means patients will go to our competitor.
- Employee engagement can create happier employees and increase in productivity, which can lead to customer satisfaction and increase in profit.
- Engaged employees influence customer satisfaction, which influences sales.
- If employees are disgruntled, it shows in lower customer service and empathy and reduces revenue.
- The more engaged our employees are, the more productive they are, the better the quality of work.

A few even tried their hand at creating "formulas" such as:

- Employee engagement + customer satisfaction = Revenue + profit
- E+CS = R & P exponentially
- ROI + OIR = revenue + profits

And some tried to single out a key issue that links the others together, such as:

- Commitment
- Communication
- Culture
- Employee Satisfaction
- Leadership
- Money
- Performance
- Productivity
- Training
- Work environment

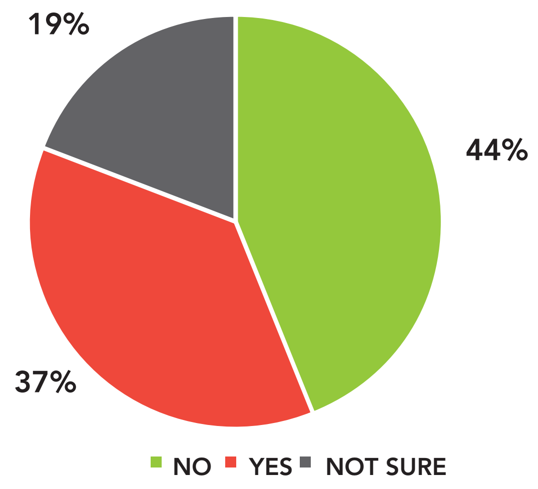
Implications: Respondents tend to believe in the links among employee engagement, customer satisfaction, revenue and profits, but some think this relationship boils down to a larger factor, such as leadership or culture.

Finding Eight: Many Respondents Say Their Leaders Do Not Effectively Manage Human Capital

Study participants were asked if their organizational leaders effectively manage human capital. Most respondents either answered this question in the negative (44%) or were not sure (19%). This means that less than two fifths of participants stated that their leaders were effectively managing human capital at their organizations.

It's tempting to assume that this is more likely to be a problem among smaller organizations rather than in larger firms. After all, larger firms have more resources to invest in robust leadership development programs. However, the data does not suggest much of a difference. Among respondents from organizations with 20,000 or more employees, for example, nearly half of the respondents said their leaders are not effectively managing human capital, compared with only 31% who said leaders were (the rest were not sure).

Are leaders effectively managing human capital at your company?

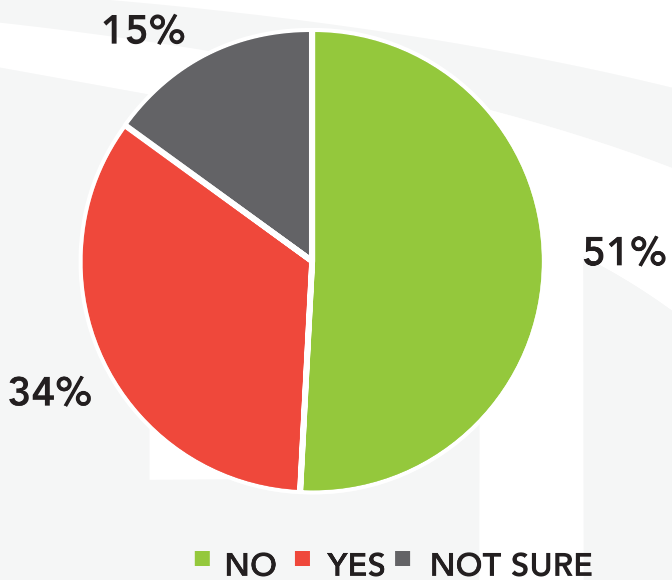


Implication: Managing human capital well is among the hallmarks of good leadership, so it's worrisome that many respondents do not believe their leaders are effective in this area. It suggests that a lot of organizations are failing to effectively develop, select, promote, measure and reward good leadership.

Finding Nine: Only Half Say Their Leadership Correlates with Key Human Capital Factors

Participants were asked if leaders in their organizations "correlate to employee engagement, retention and performance results?" Only about half of the respondents said it did correlate, whereas about a third said it didn't and 15% didn't know.

Do leaders correlate to employee engagement, retention and performance results?

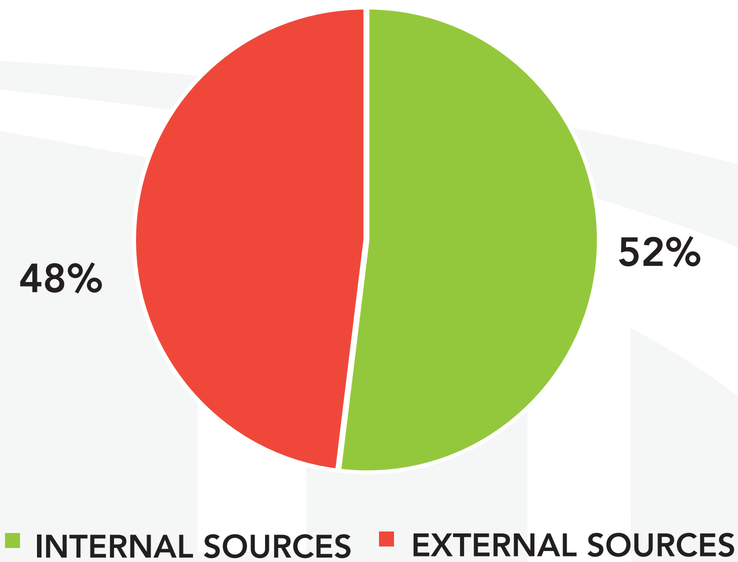


Implication: This finding requires more investigation in a future study. Does it imply that half of respondents did not see any relationship, not even a negative one, between leadership and, say, employee engagement? Or does it, as in the previous question, imply that many leaders are bad at engaging workers and enhancing their performance? Whichever interpretation we use, this indicates that many organizations continue to suffer from poor leadership.

Finding Ten: There Are Disagreements About Where to Find the Best Talent

Respondents were almost evenly split in regard to where their best talent comes from, with 53% saying it came from internal sources and 47% saying it came from external sources.

Where does your best talent come from?



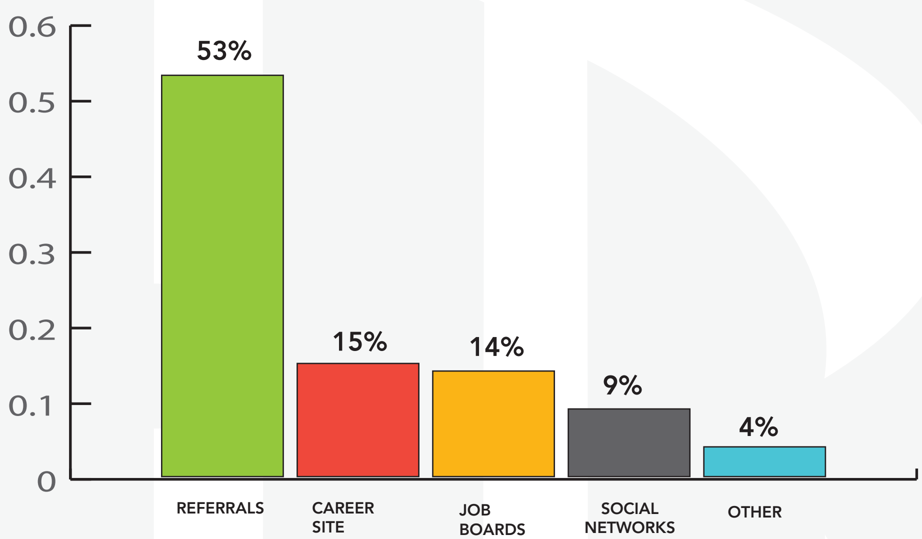
Implication: Since there's no consensus, this probably indicates that different types of organizations require different recruitment strategies. For example, an organization with a strong culture, unique product and low turnover is likely to find more talent internally than externally. In contrast, an organization that sells a commodity and has high turnover may do better seeking talent externally.

Finding Eleven: Referrals are, far and away, the favorite recruiting tool

Respondents were asked about the best recruiting sources for high performers and the best for finding job candidates who are a good cultural fit. It turns out that in both cases, referrals are by far the favorite recruitment sources. About three fifths of respondents said referrals yield the best cultural fit and 53% say they yield the highest performers.

There were, however, a few minor differences in terms of how respondents viewed these questions. Social networks and career sites were tied as the second most commonly cited sources for yielding the best cultural fit. However, when it comes to recruiting high performers, social networks were cited less frequently than were career sites and job boards.

What recruiting source yields the most high performers?



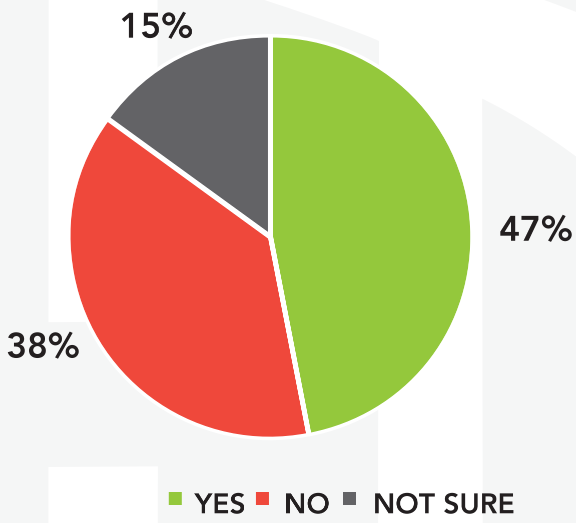
Implication: The world is rife with social networks, online job boards, career sites, and more. However, employers still believe they derive the greatest value from new hires who have been referred to them by current employees or some other source they know.

Finding Twelve: Less Than Half Say They Measure the Quality of New Hires

Employers may place a high value on referrals, but that doesn't mean they necessarily track the quality of their new hires. In fact, fewer than half (47%) stated that they measure the quality of their new hires, whereas about two-fifths said they didn't and 15% were unsure. This is a surprising finding, given how much is at stake when making new hires.

Perhaps this is linked to the fact that so many hires are for entry-level positions. The survey found that most (75%) of respondents stated that entry-level employees had the highest voluntary turnover. Only a fifth said managers did.

Do you measure the quality of your new hires?



Implication: It's surprising that so few employers measure the quality of new hires in this era of big data, sophistical software packages, and predictive analytics. To the degree organizations are suffering productivity problems, as inferred in a previous question, they may well benefit by tracking how well new hires work out for their organizations.

Top Takeaways

- Gauge the degree to which your leaders are skilled in human capital management. This study suggests many leaders are viewed as having poor skills in this area. They have a hard time "moving the needle" in terms of employee engagement, retention or performance. If organizations wish to establish leadership success metrics, they should consider running correlations between those metrics and other organizational needs: engagement, retention of valuable talent, workforce productivity and business performance.
- Consider establishing quality-of-hire metrics. Fewer than half of the respondents say their firms have such metrics, yet recruitment is the life blood of any organization.
- Investigate ways of shortening the time-to-full-productivity for employees. This study shows that organizations can find ways of shortening the cycle for critical positions. If some of the same techniques can be cost-effectively established for other positions, then a net gain in productivity could be substantial.
- Measure and hone the employee referral process. Referrals are widely viewed as the best source for recruiting high performers as well as those who fit the culture well.
- Be proactive in the area of human capital management. The study indicates that many participants are optimistic that we collectively have the ability to accurately model and forecast workforce trends. To do this well, companies require robust and reliable data, both from internal and external sources.